



Roadmap for Washington State Financial and Administrative Policies, Process and Systems

Could-Be Business Process Model Focus Group Cost Accounting

June 14, 2006 8:00 – 12:00 PM

AGENDA

1. Welcome and introductions	8:00	Kathy
2. Finalize as-is cost accounting model: – Updated process scope and objectives (see next page) – Updated As-Is model – Review Opportunities and Challenges	8:10	Derek
3. Clarify <i>Roadmap</i> direction	9:00	Kathy
BREAK	9:10	
4. Brainstorm benefits of an enterprise cost accounting approach.	9:20	Eclipse
5. What are ideas for Bold Change : <i>“Fundamental rethinking and redesign of business processes to achieve dramatic improvements in critical contemporary measures of performances such as quality, service and speed.”</i> Your recommendations will be presented with the following caveat: <i>The Roadmap vision and recommendations are intended as a starting point for discussion rather than definitive solutions. Additional research and extensive stakeholder involvement will be required to establish the feasibility of each recommendation, recommend policy revision language, if necessary, and support an executive level decision to move forward.</i> Examples of Bold Change ideas for cost accounting, is it possible to: 1. Use ABC (activity based costing)? 2. Fully load programs? 3. Negotiate a single cost allocation plan?	9:50	Eclipse
BREAK	10:30	
6. Refine the straw-man <i>The Could-Be Model</i>	10:40	Eclipse
7. Next steps – Assignments – Follow-up #1 session, June 28, 8:00 – 12:00 PM, DIS Board Room – Follow-up #2 session, July 12, 8:00 – 12:00 PM, DIS Board Room – Process check – How can we improve for future modeling sessions?	11:45	Kathy



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DRAFT Process Scope

Cost accounting identifies activities, products and services for which costs need to be measured, establishes a formal or informal costing methodology and plan, and records, accumulates and distributes direct, indirect and overhead costs to those cost objectives according to the established methodology.

Definitions for our purposes:

From OMB Circular A – 87 Revised 5/10/04

Cost – An amount determined on a cash, accrual, or other basis acceptable to the Federal awarding or cognizant agency. Does not include transfers to a general or similar fund.

Cost objective – A function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

Direct cost – Costs that can be identified specifically with a particular final cost objective.

Indirect cost – Costs that are incurred for a common or joint purpose benefiting more than one cost objective, and are not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

From Allotment instructions 2005-2007

Indirect costs – Costs that are linked to two or more activities, are closely related to and tend to vary with activity level or size, but usually cannot be practically or economically direct-charged.

Overhead costs – Core administrative functions and costs that typically support the entire organization, are not directly attributable to specific activities, and tend to be relatively fixed and not readily affected by fluctuations in activity levels.

Additional definitions

Cost pool – The accumulation of a group of indirect costs that will later be allocated to cost centers.

Cost center – The accumulation of direct and allocated indirect costs into cost objectives.

Business Objectives

Demonstrate how monies are spent (compliance)

1. Determine the full cost of government activities, products and services across agencies in accordance with generally accepted accounting principles
2. Comply with legal and grant/contract provisions for the use of money
3. Establish prices or fees for activities, products and services based on costs, legal constraints and/or other factors as appropriate.
4. Provide flexibility to view and control original and allocated costs by function, activity, and organization.
5. Monitor plan versus actual and adjust as necessary
6. Support equitable allocation of costs

Compare costs to outcomes (management reporting / effectiveness)

7. Align resources to core business activities
 8. Provide flexibility to respond to inquires on current and emerging strategic priorities
 9. Enable decisions that will optimize resources and/or outcomes
 10. Demonstrate activities, products and services are cost effective
- Or:** Help managers allocate resources among competing priorities and distinguish between strategies that work and those that don't



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Draft Opportunities from the As-is meeting

1. Standardize indirect and direct costs for projects (Budget instructions, accounting policy)
2. Publish standard cost allocation definitions
3. Institute a shared rate structure
4. Provide true cost of goods sold and inventory valuation
5. Provide full cost of government services across agencies
6. Identify costs at low level of granularity
7. Provide real-time total costs
8. Link cost objectives to budget requirements
9. Isolate cost of non-economic policy (since often government has to do something no matter its economic viability or efficiency)
10. Allow "what if" scenarios
11. Remove artificial constraints to costs
12. Relate total cost of a program to its budget, grant, funding, etc.
13. Provide the ability to compare pricing to external sources
14. Allow comparison of cost trends across time, organization, etc.
15. Support "make versus buy" type decisions

Draft Challenges

From the As-Is modeling session:

1. Enterprise tools are not available to help agencies comply with state allotment instruction requirements to separate administrative costs between indirect costs and overhead costs and assign the indirect portion to activities through cost allocation.
2. Reconciliation between agency fund split, program structure and cost allocation structure is time consuming and difficult.
3. Reporting for budgetary and operational management
4. Multiple and circular allocation steps (for example, A provides services to B and C and B also provides services to C)

From the *Roadmap* Common Business Problems and Opportunities survey:

5. Incomplete, dubious data impedes the ability of state policy-makers and managers to measure performance, evaluate competitive contracting proposals, manage agency business operations effectively, price government services, make life-cycle investment decisions, assign costs to level of service options, and support a "priorities of government" approach to budgeting.
6. Agencies lack the flexible cost analysis tools to provide timely and reliable high-level cost data and supporting details to inform resource allocation decisions.
7. Better cost accounting capability is required to support Priorities of Government initiatives and determine the costs of government services.
8. Current cost allocation tools are designed to address specific business issues; agencies need flexible analytic tools to adapt to emerging policy and operating business needs.
9. Fiscal notes on the impact of proposed legislation are based on inconsistent cost data from agency to agency and vary widely in format and quality.
10. Processes used to collect the workload statistics to support cost analyses are labor-intensive, after the fact, not integrated, and not available when needed to support decisions.
11. The current plan for HRMS labor distribution may not provide all the data needed to meet cost accounting requirements for all agencies.



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12. Agencies need the capability to allocate administrative costs to cost objectives to accurately determine costs and maximize revenues, using allocation methods that are appropriate for the business situation.
13. Agencies require the flexible capability to define account code fields for the purpose of collecting agency-specific details that can be used as cost drivers in cost allocation analyses; for instance, an agency may need to track labor hours and payable costs to case numbers, projects, or specific capital assets or facilities.
14. Agencies need the ability to model allocated costs for budgeting, cash flow, and rate setting projections.
15. To comply with RCW 43.88.0909(3),(4)&(5), agencies need to assess performance against their major programs as established in the budget. Each agency's budget proposal must be directly linked to the agency's stated mission and program goals and objectives. Current systems do not allow for this linking and assessment.
16. Use of agency-unique cost allocation tools rather than an integrated central system requires significant data entry and reconciliation effort.
17. Many agencies currently allocate costs through spreadsheets, which wastes resources creating, reconciling, and correcting errors.
18. Many managers make decisions on a daily basis that have significant cost implications but are not routinely supported by cost analyses; this process is imprecise at best and totally inaccurate at worst.
19. Enabling legislation for the State Auditor's Office (RCWs 43.09 and 42.40) mandates accurate allocation of costs between local government audits, state government audits and whistleblower investigations. Also, RCW 43.88.0909(3),(4)&(5) requires agencies to assess performance against their major programs as established in the budget. Current systems do not allow for these allocations, linking and assessment.
20. Some agencies are moving rapidly toward accountability by cost center or business activity and need the tools available to achieve this goal.